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AN AFFILIATE OR AFFILIATES; TO LEND
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OBLIGATIONS OF AN AFFILIATE OR
AFFILIATES

DOCKET NO. E-01345A-02-0707

NOTICE OF FILING WITNESS
SUMMARY

Arizona Corporation Commission

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CAF

In accordance with the Procedural Order dated October 9, 2002, Panda Gila River, L.P.
hereby files its witness summary in the above-entitled matter.

SPECTFULLY SUBMITTED this 7th day of January, 2003.

DICKSTEIN, SHAPIRO, MORIN & OSHINSKY

By Michael R. Engleman
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1 ORIGINAL and 13 copies of the
2 foregoing hand-delivered for
3 filing this 7th day of
4 January, 2003, to:

5 Docket Control
6 ARIZONA CORPORATION COMMISSION
7 1200 West Washington
8 Phoenix, Arizona 85007

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10 hand-delivered this 7th day of
11 January, 2003, to:

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19 this 7th day of January, 2003, to the service
20 list in this matter.

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23 1376200.1/73262.005

Summary of Testimony of Susan D. Abbott

My name is Susan D. Abbott. I am currently an independent consultant to the power industry specializing in credit and credit rating issues. For 20 years I worked for Moody's Investors Service ("Moody's") in various capacities, including 3 years as a senior analyst in the Electric Utility Group, and 10 years as Managing Director of the Power Group. For 18 of my 25 professional years, I have followed the electric sector either as a lender to, or a rater of electric utility companies. .

I was asked by Panda Gila River L.P. to address the question of whether a financing of assets owned by Pinnacle West Electric Corporation (PWEC) by Arizona Public Service Company (APS), an affiliate, would be damaging to the credit quality of APS. My conclusion is that a financing of the magnitude suggested, \$500 million, will surely affect the credit quality of Arizona Public Service (APS), likely result in a ratings downgrade of some or all of the securities heretofore issued by APS ultimately resulting in higher costs that will need to be paid for by ratepayers. I also concluded that the appropriate place to refinance the PWEC assets is at Pinnacle West Capital Corporation (PWCC), the parent company of both PWEC and APS.

While Standard & Poors' (S&P) corporate credit ratings of APS are currently equivalent to that of the parent, PWCC, at BBB, the first mortgage bond ratings are higher at A-/A3/A-, at S&P, Moody's and Fitch respectively. Considering S&P's consolidated approach to corporate credit ratings, I do not expect that a refinancing at APS will affect its corporate credit rating, since in theory, the debt already exists in the enterprise and is reflected in the corporate credit ratings. However, Moody's and Fitch do not follow the same methodology as S&P, don't have the equivalent of S&P's corporate credit ratings, and tend to treat first mortgage bond ratings as the "benchmark" rating. S&P also rates first mortgage bonds separately from corporate credit ratings. If additional financial leverage was placed on APS, it is difficult to believe that wouldn't be reflected in a ratings downgrade by Moody's and Fitch, and by S&P at the first mortgage bond level. Financial parameters decline considerably, and while they are not the only concern of the rating agencies, they are important guideposts that have a heavy influence on ratings.

Another concern is that in drawing the relationship between APS and PWCC closer through a loan or guarantee between them, APS will be less protected from negative circumstances that might befall PWCC. Lenders to PWCC might attempt to recover lent funds from APS if they were unable to collect them from PWCC under the theory that because of the interconnections, they are all one company, and therefore all of the enterprise's assets are available to lenders, regardless at which level they originally made the loan.

Finally, while recognizing the motivations present at PWCC to refinance the \$500 million bridge loan at APS, I believe there are negative consequences to APS' ratepayers in the long run. These include higher interest costs should APS be downgraded, and a less robust competitive market in Arizona leading to higher purchased power costs than might otherwise be the case.